FAQs for LGPS employers: Backdated pay awards

These FAQs cover the common questions that arise when you pay a backdated pay award.

A backdated pay award occurs when a pay increase is agreed after the date the new rate of pay should have been paid from.

Are pension contributions deducted on pay arrears due to a backdated pay award?

Yes - employee and employer contributions must be deducted from arrears of pensionable pay that is paid because of a backdated pay award.

If an employee leaves employment before the award is agreed, do we need to pay the award?

This a question of employment law. In our view, you are not obliged to contact former employees to offer the pay award. However, if the former employee requests it, the pay award should be applied and arrears paid.

We are paying a backdated pay award to an employee who left employment before the pay award was agreed - are pension contributions deducted from the arrears?

Yes - employee and employer contributions must be deducted from arrears of pensionable pay that is paid because of a backdated pay award

Where pensionable pay is paid after a person left employment or opted out of the Scheme and you have already submitted leaving data to the administering authority, you must send the:

- revised data - if the payment is made in the year of leaving, or
- new data - if the payment is made in a year after leaving

to the administering authority together with the date the additional payment is made. You need to contact your administering authority to find out how to pay the contributions owed to the Scheme and inform them of the change to pensionable pay.

Should we review employee contribution rates when we implement the pay award?

This is your discretion. You must review employee contribution bands and rates each April, in the pay period in which 1 April falls. So employee contribution rates would have been reviewed on the previous 1 April on earnings without the pay increase.

You may choose to review employee contribution bands and rates where a material change in pay occurs. Pay increases due to a pay award are a material change.

Ultimately, other than each April, it is your discretion when to review employee contribution rates and when to apply any change. Regardless, pension contributions must be deducted from the arrears of pensionable pay.

If you change an employee's contribution band, you must inform the employee of the new contribution rate and the date the change is applied from.

If we review employee contribution rates following the agreement of a pay award, when is the new contribution rate effective from?

You can choose to apply the new contribution rate from the:

- effective date of the pay award – this means the new contribution rate will be applied retrospectively to the pensionable pay paid from the effective date of the pay award including the pay arrears, or
- date the pay award is actioned on the payroll.

In both scenarios you must inform the employee of the new contribution rate and the date the change will be applied from.

If it is your policy to automate the process of reviewing contribution rates each month the member may pay a higher contribution rate in the pay period that they receive the pay arrears.

How does a backdated pay award affect CARE pay?

A backdated pay award will buy earned pension in a member's pension account in the scheme year it is paid. For example, if a pay award relating to 1 April 2021 to 31 March 2022 is paid in April 2022 earned pension is credited to the member's CARE account in the scheme year beginning on 1 April 2022.

How does a backdated pay award affect final salary pay?

A backdated pay award must be included in any final pay calculations for members with final salary benefits. It must be attributed to the period it was earned.

For example, if a pay award relating to 1 April 2021 to 31 March 2022 is paid in April 2022 and a final pay calculation is required, the arrears of pay must be allocated to the period in which they were earned when calculating final pay.

Final pay is usually the pensionable pay for the final 365 days of employment. Pay from one of the previous two years must be used if higher.

Should pension contributions be deducted on pay arrears if a member has opted out?

It depends:

No - if the member opted out within three months of joining the LGPS and a refund of contributions was processed via the payroll.

Yes – if the member opted out after three months of joining the LGPS and the pay arrears relate, in part or whole, to a period the employee was a member of the LGPS. Employee and employer contributions should be deducted on the pay arrears that relate to the period the employee was a member of the LGPS.

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